

**Press roundtable with Amb. Robert Zoellick, U.S. Trade Representative
U.S & Foreign Commercial Service Offices, Hong Kong
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Ambassador Zoellick:

Thanks all for coming by. As I think many of you know, I've just finished a trip from Tokyo where I went to a mini-ministerial for the WTO. Then I was in Beijing, then Chongqing, then briefly in Shanghai and then came here. The main purpose of this part of the trip for me was to try to get a better sense about China's WTO accession one year on. In a phrase, I think there has been good progress. There's more work to do, but I also leave with the sense of tremendous opportunities for both the United States and China.

Just to give you a little context from my perspective on this: I first visited China in 1980, when I was living in Hong Kong about 300 meters from here, right below the Botanical Gardens. And I had a chance to come back to China a number of times when I was in the State Department from 1989 to 1992, and then I came back in a private capacity during times in the '90s. It's just coincidental that I was the person in charge of bringing Hong Kong, China and Taiwan into the APEC in 1991 to 1992.

When I assumed office in early 2001, I put a high priority on trying to complete China's accession to the WTO, because even though the permanent normal trade relations legislation had been passed, there were some difficult issues that we had still to resolve. I came up with some ideas when we first started, but then we frankly were set back with the EP-3 incident, if you remember the plane incident. Actually it was in Shanghai in June, where in the evenings I did some negotiating with my counterpart Minister Shi to kind of break the back on some of the leftover issues. Then we worked them out in the WTO through the course of 2001.

I personally believe that the WTO accession opens up a larger opportunity to try to redefine the shared interest between the United States and China. All those of you who know about the U.S. history with China, the Shanghai Communique of '72 was fundamental in setting the political framework. I hope that the WTO accession of 2001 can offer a framework for building economic relations for years to come.

So one reason I wanted to come to Beijing now was to try to have some further discussions with new Chinese leadership at a time that they are going through transition about these ideas. I had a chance to meet Vice Premier Wen Jiabao for the second time; I had a long conversation with him when I was in Beijing last year. I was pleased that he used some similar language to the ideas that I was suggesting, and he talked about looking at the economic relations from a strategic perspective.

So one year into WTO implementation, we're beyond the negotiations and now we're getting down to business about what it means. From the Chinese side, one of the things that I discussed with the Vice Premier was their follow-through on the tariff cuts and the licensing arrangements and trying to remove some of the regulatory red tape. Of course I reviewed with Minister Shi and the Vice Premier some of the problems we still have to solve. The most prominent ones are

dealing with the tariff rate quotas for some agricultural products, ongoing issues with the soybeans and the biotech approvals, intellectual property rights -- where we spoke about a common interest, because as you look at the development of creative industries in China, they also have an interest in trying to protect intellectual property and this is really now a question of enforcement. You've got some pretty good laws in the books, they are adding criminal penalties, and it's a question of enforcement. And then we also talked about some of the capitalization requirements and financial services.

We also talked about the opportunities. In the new term, I was really very interested in trying to discuss the possibilities of working with China on the Doha Development Agenda, the subject I'd just been discussing in Tokyo. My colleague Linnet Deily, who is our ambassador to the WTO, was with me there and she's going to go back to Beijing for a full-day of discussions on Friday.

One of items I'll follow-up on was our shared interest in trying to cut agricultural subsidies and tariffs. China has limited itself very much in agricultural subsidies; that's one of the items I was negotiating with China in June in Shanghai. So they would support our interest in trying to get significant reductions in subsidies and tariffs. But I wanted to put forward some ideas that go beyond the Doha agenda, including the fact that, if you are in my seat and you look around the world for the trading system, Japan's economy has been stagnant for about a decade, the European Union is struggling, the key normal growth engines, Germany and France, have been sputtering. And so everyone wherever I go looks to the United States as a source of growth, whether it's Latin America or whether it's the Asia Pacific.

China's growth becomes important as a potential factor in the overall regional and global trading system. I also suggested we try to have a more in-depth exchange about the changes in business networks. This is obviously -- I spent a lot of time in the United States talking to business people about doing business in China, how it's changing, and I was interested in getting the Chinese perspective.

I went to Chongqing in part because I find it useful to not only engage in formal sessions, but to try to do some listening and learning, and see some things with my own eyes. And here I wanted to travel beyond the coast. I've been to Shanghai, I've been to Beijing, I've been obviously in the south, and so I went with a question of what does the WTO accession mean in an inland area? And what does it mean to the "Go West" campaign?

Just to give you a little flavor, here's what I saw and heard in an extended day there: In the morning, I went to an open market where they were selling Sunkist oranges and grapes from California. The woman I met with who was selling the oranges had had the small market stall for about 13 years. She was one of the pioneers in Chongqing. Every morning she starts out at 4 a.m. selling to people who will be street vendors; and she was nice enough to give me some oranges of her product.

Then I went to a Ford plant. This is a joint venture that was begun about two years ago. As some of you may know, GM was in earlier and has a big operation in Shanghai. Ford has had some operations but hasn't had manufacturing operations. This plant -- and it was a pretty impressive

facility -- was built in less than a year, which gives you a sense of the interest in Chongqing in making this work. Obviously the people in Chongqing are very interested in investment and the jobs that it brings.

What was also interesting is that, as probably many of you know, much of the early foreign direct investment in China was focused for export market. Indeed, if you look at China's growth, about a third of the growth last year was related to exports, about a third of those exports went to the United States. But this plant is designed for the internal market. I saw a statistic in a paper, actually, just as I was flying in here, about the growth and demand being about a hundred percent over a course of a year.

What was also interesting about this plant was that it was a good example that a city much more deeply in the heart of China is now becoming part of a global business network. The design of the model of the car that they are producing there is the Ford Fiesta, which was really designed for a European market. They adapted to Chinese needs and tastes. For example, I was talking with them about how they are changing the suspension system to deal with everything from bumpy roads to the super highways. They changed the color, the design, to meet Chinese tastes. You have a U.S. company with U.S. inputs, the manager of the plant is an Australian. I stopped and saw some of the training system, where they are tapping into the Ford website internet training for the young Chinese they've hired who are learning everything from human resource management to how they fit into the supply chain. The Ford managers are justifiably proud of bringing their training and corporate values of a U.S. company -- from everything from the environment to training -- to their employees.

I asked at the meeting, because it is a joint venture, "What is WTO accession mean to you?" The Chinese counterpart gave me the following points, which I thought were interesting. He said: "First, with the tariff cuts, you get much more price competition for automobiles in China. This, combined with the per capita incomes in the coastal provinces now getting in the six to seven thousand dollar range, is the range where you've historically seen automobile purchases really jump up." A second point he mentioned was that transparency in rules is, for them, one of the major concepts associated with WTO accession. This in part leads to fair competition among the provinces. So if you're in Chongqing or if you're in Sichuan province or others, you see all the advantages of the coast, now you see you want to get part of the benefits.

Fair competition among companies, so that the openness and transparency allows companies to compete more. One that you can seize kind of on the edge is auto finance. Most of the cars bought in China now bought with cash, but cash of course really means probably a family borrowing -- some guys brings in a pot of cash that involves having gone with a number of people around, so it's kind of the most basic form of borrowing. Probably that represents maybe 80 percent of their sales; only 20 percent and some on credit. If you take the United States, it's probably the reverse: it's probably 80 percent bought with credit, 20 percent with cash. One of the issues I actually saw in the Shanghai papers as I was flying down again was trying to change the rules to allow auto financing purposes.

Now it's just one plant, but the thing that is impressive about this is how the ripple effects will

spread. For example, as I was leaving the hotel and I saw the hotel manager, he told me about how they just had a Japanese delegation come in that was going to be building a supplier facility that would supply the Ford plant there.

I also saw the city officials. This was an interesting mixture because I met the party secretary. Party secretary had just come in the past year for being minister of transportation in Beijing, so he was somebody coming in from Beijing. The executive vice mayor was from Shanghai, and he's the person who developed the Pudong development. Then the vice mayor was local, from Chongqing. I asked to them, "What does WTO accession mean?" First it means education, educating government officials at the local level, educating local business people. This is somewhat impressive to me, because if you went to most American cities and asked what the WTO meant, I don't think you'd get much of an answer. It clearly means more competition, but what's striking is this competition in their mind is connected with the ability to catch up to the coast. So this is not just competition of China with other countries, it's competition within China. And obviously they see it connected to investment and trade.

Then I went to see some university students. These students were ones who often were sort of with masters degree or with some graduate education. I try to do this where I can in some places because you get a different feel for things. I asked them, "What does WTO accession mean to you?" One interesting dimension, given the fact that globalization is a word that causes concern in many parts of the world, was, for these students, globalization was seen as an opportunity. It was an opportunity to have more of a rule of law system, develop commercial law, more openness, and like many parts of the world, they were sensitive to preserving the unique aspects of their culture or unique aspect of their city. But for them, it was opening new vistas for them.

I was going to stop in Shenzhen, but I had some logistical troubles on that, but that would have been interesting because I wanted to go to see a Wal-Mart store. Wal-Mart in the United States now buys a lot of their goods from China, so in the United States, you see Wal-Mart as a purchaser from China. But Wal-Mart is also expanding its retail operations in China, so you can see a two-way aspect.

I was back in Shanghai, where I've visited before, and one cannot help but be struck by the vibrancy of this city. I was struck as I was driving to the airport through Pudong, and I saw a sign saying "Paradise for Entrepreneurs," which was very different from the China that I first visited some 20 years ago. As a little test, I spoke to the hotel manager, and he was talking about how their occupancy of their and all hotels was at the 80 percent plus level, which is quite striking. It shows the dynamic part. And you just get a sense of how Shanghai in a relatively short space has moved to being a hub of the international economy. Indeed, as we were pulling up to the airport, I saw Federal Express planes leaving, which is part of -- again -- the WTO negotiation. There's another thing I was struck by, as we were driving through, though, which is the attention to living conditions. The planting of trees, the greenery is not just economic growth; they are expanding the lifestyle.

I always like to come through Hong Kong when I have the chance, both because I have a fondness for the city, but you can get some interesting conversations here. There is always an

anxiety in Hong Kong. Obviously, you know, "What's happening in Guangdong, what's happening in Shanghai, where do we fit in?" I find that to be a stimulating aspect of the city and life here. We've cooperated very well with Hong Kong in the WTO, so I'm having dinner with Henry Tang tonight, and just had a chance to see C.H. Tung who I've seen before. I'm going to have a stop with the American Chamber because I'd like to get their view on different things. And part of what I want to do is get a sense of how is Hong Kong's identity changing and how is it adapting to the changes in China?

So just to conclude, let me step back and make a couple of observations on China and the WTO. My sense is that WTO accession for China is much more than joining an organization or just to applying new rules. WTO accession is integrated with China's transformation and development. That was my hypothesis, and that's certainly the feeling that I got in Chongqing. It's a sign of China's commitment to adapting China to be able to compete in, to benefit from, but also to contribute to the global economy.

There's new concepts that are working their way through a huge country. Not only the people that I talked to in MOFTEC in Beijing, but to city government in Chongqing and joint venture partners and students. These are concepts like rule of law, win-win ventures, transparency, national treatment. Again, my overall sense is that in a year there's been good progress, there's no doubt there's more work to do, but I also come away with the sense of extraordinary opportunity.

Q: Keith Bradsher, New York Times: The Chinese are in their first trade deficit in January in six years, some people say it was an aberration, some people say there should be cause for concern. Did you get any pushback from Chinese officials saying, "Look we're concerned on the sustainability of what will happen, surpluses, as they look towards the level of implementation on WTO?"

Ambassador Zoellick: No, but if they run a trade deficit, it isn't with us. (Laughter.) It came up more in the context of the following: As you know, the numbers that China uses and the U.S. uses diverge significantly. Our numbers are approaching about a hundred billion dollar trade deficit. The Chinese numbers are lower, in part because of different counting from Hong Kong. Whatever you are, whatever numbers you use, China runs a large surplus with the United States. My point on that was to say, I do not believe the goal of trade is to have a surplus balance of trade; that the goal is to try to create economic growth and opportunity in an expanding pie. I did emphasize, however, that while I believe -- I was exploring with them how WTO accession was part of their larger growth strategy. I also explained that to manage support for this economic relationship within the United States, it also has to be a level playing field. This was the opening for me to emphasize how they needed to follow through on some of the obligations like the tariff rate quotas for agricultural products. I explained how the agricultural community in the United States had been a very strong supporter of trade relations with China, and so they had to be treated fairly on these various issues.

But then I also went on because -- as you see from some of these examples -- the notion of trade in today's world is not sort of just traditional point to point trade; it's a global sourcing network. As my Ford example shows, it is drawn from four or five different continents. So this fits very

much with what I believe the new leadership's view is of an economic relationship with the United States. When you take Wen Jiabao's comment, I was pleased to hear about looking at this in a strategic context. It was seeing the win-win benefit and that leads me to share one observation. A Chinese friend of mine said, was giving me some examples of the difference that WTO accession may and one perhaps you guys can test me on this, and tell me whether it's right or wrong was he said, "There was no word for win-win in Chinese language." He said, "there was the notion of the wind blew from the east or the west. You are alive or dead, but not kind of the win-win." So he said they had developed a new word for this and similarly with transparencies, there is a notion of transparency in the physical sciences, but not on the social sciences, and he mentioned how in fact there was a Chinese saying about, you know, "Fish that swims in water that is too clear doesn't survive." And so how this is a change concept and he also used the example of national treatment which for those of you aren't trade specialists, the notion that you treat foreign nationals the same you should treat your own. He said this is an interesting development in that as China started to give national treatment to foreign firms, treating them like they treated their public enterprises, some of the private enterprises in China said, "wait a minute, we get the same treatment too." And so it's a good example of how I think the larger ripple-effects are moving in the direction of greater openness and the rule of law. The system isn't there yet - I mean there is no doubt and you come to Hong Kong and you understand the rule of laws. But I have a reference point, I have a reference point of visiting China in 1980 and I was in China in 1989-1991, all the 90s and it's the changes are enormous.

Q: - some strategic implications just last week quoting how's, saying that the Chinese needed to pay more attention to their relationship in the United States in dealing with the - did you talk about any non-economic issues in terms of the importance to the Chinese of this trade partnership?

Ambassador Zoellick: No, I have been traveling for about a week. I understand that Colin [Powell] is actually going to Beijing, but I don't know, I think, so you know that, I'll let my State Department colleagues talk about this security and political relationship. But I'll say this, you know, one it's been my belief during the course the Bush Administration, that even at a time when we're fighting a war against terrorism, and are dealing with security challenges in the Gulf, that part of the long-term campaign for security needs to have an economic component. You know, to give you an example from a slightly different part of East Asia, I visited President Megawati a number of times, and while I don't believe that terrorism is caused by poverty - it doesn't meet the social logical profile for the terrorists, and is an insult to many poor people who don't resort to terrorism.

But there's no doubt that when a country is in a weakened condition and fragmenting, and the society is splitting, it creates fertile ground for terrorists. And so part of the theme of my tenure has been how we need to expand the circle of economic prosperity as part of the longer-term campaign of dealing with the security issues in the case of China. You know, I think that China understands the importance of a sound economic relationship with the United States and while this hasn't been as much recognized in the U.S. press, I think it was a very big step that we were able to complete China's accession to the WTO in 2001. This was in part kind of how we did it and how it was dwarfed by other issues. But just to give you an example, on the week of 9-11, I

kept my team in Geneva to try to finish the last issues which, if we hadn't done it, we wouldn't have been able to get before Doha. And the head of my delegation was a guy from New York who was pretty disturbed at things and I think the Chinese recognized that and understood that. So in the larger sense, I think that, you know, good strong economic relationships are important to China, but they are important to us, and they are important to the region as a whole. And so one of the reasons that I was urging a deeper dialogue was to say that WTO accession is not just about following up on the individual items and procedures. That is part of the task, but we have larger interests.

Let me give you another example, I mean, in 1997 when much of East Asia was shaken by economic problems. China's growth and stability was quite important, so and as I, you know, gave you the example right now, most places I go, everybody ask me what are the prospects for the economy, U.S. economy's recovery - and why is that? They don't expect any help from Japan, they don't expect any help from Europe. Well, China's economy is only 10 percent of the United States' economy, so you know, it isn't yet at a point where it is that large of a element, but you know, if you go to seven or eight percent a year, it starts to have a positive influence. So I was here about building economic relationship but I hope the economic relationship will contribute to the other topics.

Q: Couple of detailed questions about what you saw in China. Did Wan Jiaobao or anyone else that might have raised this whole issue? Did you perhaps raise this issue, internal barriers of trade in China which is seen as a major obstacle to implementation of WTO accession?

Ambassador Zoellick: Well it came up more from some of my discussions in Chongqing, more in a sense that, it's kind of the nature of these kinds of visits, you know as you learn things, it is that I was struck that when I talked to, you know, the party secretary and some of the officials, you know, their job is to try to get growth and dynamism in Chongqing and obviously they see the advantages of the coast and so for them, WTO accession is having a fair set of rules for all of China. And I had, I got the same sense from the Ford joint venture partner which was a very large auto combine, as you may know, Chongqing has a history of being sort of an auto city in motor cycle city and others and so they go to Guangdong or Beijing or Shanghai, they can see which you and I see and Chongqing isn't there yet. And indeed, you know, I was struck by the fact that the executive vice mayor was someone from Shanghai who did the Pudong development. That gives you some sense of what people want to do next. And he gave me a number of examples of where he thought Chongqing was about 10 years behind. But he felt that, you know, it could close the gap quickly but part of this is the optimism of trying to transform a city in a province.

Q: ...sense in which the tariff structures are moving towards the Chinese point of view of a will lower the tariffs faster when more expensive goods that few of you people will buy, want to protect from the lowering goods that the mass market will buy and was trying to retain if you like a core competency in that mass area for markets?

Ambassador Zoellick: You know, I don't know enough of these "ag" tariff structures to address that. I don't think it's that way, in other words, if you think about that, they are not going to probably need tariffs in apparel, where they are pretty competitive. And so it is true that some

countries, you know, try to have a little tariff escalation to protect them in the value-added area. But, you know, the overall tariff structure has come down considerably and you know, take auto tariffs, I mean auto tariffs were much higher, I think they've come down to what 12 percent or something like that. And this is where frankly the nice thing I always have to make this point to people in my own country as well as others is that your trades of win-win venture. So you bring tariffs down, you get more price competition, more people are buying cars within China, so what does that do, that means more cars can be made in China. You get more investment in China, get more jobs in China, and those companies that are linked to the rest of the world, so is not like you are taking away from somebody else, it's you're adding to the overall pie.

Q: Rahul Jacob of the Financial Times: Will you be raising concerns expressed by U.S. and British companies about the implications of the possible proposed free trade agreement between Hong Kong and China and what that might mean?

Ambassador Zoellick: I've talked about that with Henry Tang in the past, but my sense is that it's rather in its early stages and so I've made the point that we want to make sure that, you know, the companies operating here were treated fairly and given an opportunity -- and obviously that's in Hong Kong's interests, I mean Hong Kong wants to see itself as part of a regional economy but equally important, a global economy. I mean that's part of its comparative advantage. So you know look around here, and you know, one of the things that makes Hong Kong distinctive is the large number of foreign operations that are comfortable here. My own sense is that the proposal by Hong Kong has been met with some question on the Chinese side. But I think what is more one of the other things want to come here and learn about, is the other intra-regional dynamics, so for example, you know, it's Guangdong sees Shanghai search, and given the fact that you have political leadership throughout China that often has Shanghai ties, then the people in Guangdong, wonder "where's our future?" And then that leads the question about, you know, what's the relationship with Hong Kong and Guangdong, you know, in a larger Pearl River development. And so I could see a deeper regional integration here. But at the same time, you also get the clear sense that all these cities are very competitive with one another too. Guangzhou doesn't want to see itself as just Hong Kong's backyard. So, you know, that's one of the things that I've actually come here to try to ask questions about.

Q: Min Lee of AP. When you said that, you think that China has made good progress, there's still a lot of work to be done. Did you happen to feel concrete areas where you think they have made good progress and also do you think they need to work harder?

Ambassador Zoellick: I alluded to them. They have brought down the tariffs as they agreed to do. They have removed some of the licensing arrangements, they granted licenses to some of the foreign financial firms for example insurance and others. You know, some of the, they've had a mass of transformation of their rules in legal structure, changing laws and rules, publishing them and increasing transparency of that.

That again is what I wanted to see was, you know, it's one thing they talked to people in capitals about that, it's another to see whether that is filtering down to people elsewhere in the country. At least from one city, I get the sense that it was. And then on the -- and as we've had some specific

problems in the past, for example, we were concerned about some of the express delivery services that they had different rules than China Post, but we raised those issues and they appeared to have met those concerns. The problem areas, the biggest ones are in the agriculture area. They, the first year, they put in tariff rate quotas for a number of bulk agricultural goods, and there were a lot of problems with those tariff rate quotas. Things like under WTO rules, you are not supposed to have a requirement that somebody has to import for re-export. So for example, if you bring in cotton that had only be given to plants that are using the cotton to be able to make fabric for export. And another area is that they are not supposed to add actual licensing burdens, you have to give the quotas in commercially useable amounts, so it's not just sort of diffused out in a way that makes it impossible for exporters to use it. China did make some improvements in those issues, but they still remain a serious problem, so that's one I want to emphasize.

Second on biotech soybeans, as you may know, China has its own biotech development, so we are very keen to make sure that this is not been used as a protect measure. This is an issue that President Bush raised with President Jiang Jiamin when they were together. The Chinese worked out an interim licensing arrangement that runs through September this year while they were supposed to be various field tests performed on the biotech soybeans. In January we learned that the Ministry of Agriculture wanted an additional round of tests, this creates, you know, since soybeans only grow so fast, that means that the resolution to go from interim licenses to permanent licenses is delayed, we want to make sure that this uncertainty in the market doesn't last very long because people have to plant crops in the United States and elsewhere earlier in the year for export in the Autumn. And I came away with the sense of that the people in Beijing realize the importance and seriousness of that issue, I came with the positive feeling but it's one of the issues that Linnet is going to follow-up when we come back.

Intellectual property I mentioned, that obviously you go anywhere in China and you can see, you know, all sorts of things that have been, you know, pirated copies but I also start introducing new idea with them which is that in both our Singapore and Chile free trade agreements , one of the things I'm learning from our industry is that one of the most important areas for intellectual property protection is digital rights. And here you may not even have hard copies, it's a question of protecting the ownership when someone is downloading music or one of your newspaper stories or others into the memory, the computer and what ownership right you get. So I wanted to disclose the point about a longer term relationship, I wanted to start to put these ideas in people's mind because when I was in Beijing, the last time, I was talking with a number of young Chinese with developing business software, you know, so they have an interest in protecting this.

And then the fourth one that I raised was the capitalization requirement for some of the financial firms which a country has a right to set capital as part of their prudential regulation but the capital requirements look a little high, and look like they might be trying to protect some of the financial firms as they go through their changes.

Q: I just want to follow-up on the auto financing issue, did you raise that with Chinese officials? And have you any sense of whether or not rules will be coming out for auto financing?

Ambassador Zoellick: I think I talked about the financing sector in general in my meetings with Minister Shi on some of these items, but I don't think I raised the auto financing in particular with them. We are starting by the way, we are starting a U.S.-China Trade Dialogue that Linnet and one of my other deputies, John Huntsman, is going to pursue all day meetings.

Q: Chan Siu Hin from Hong Kong Economic Times: After you have said that you have seen Vice Premier Wan Jiabao twice, what was your image on him and what do you expect if he was elected premier next month, would you expect any policy change of China towards the trade towards the United States?

Ambassador Zoellick: First on my impressions, I find him obviously a highly intelligent man, he's got a very sophisticated style. He, you know, wouldn't get where he's gotten without impressive abilities which you can see. And even within the constraints of such conversations, you see somebody who I think has got an ability to understand the detail of individual problems while also as one would hope for his type of position, looks to the bigger relationships and the largest strategic interest. And so since part of my purpose in seeing him again, and in more particularly, you know, I talked with him on both visits on a little bit about his responsibilities with agriculture and finance which are not too challenging areas. And I was pleased that part of my purpose with him was to try to plant some seeds of deeper strategic discussions that he independently was suggesting the same thing. And it comes back a little bit to Keith's point here is that I think, you know, what the Chinese see is the importance of economic relationship with the United States, to take on the immense challenges they have and what I was trying to suggest is that we see common interests as well.

Now the second part of your question was policy changes. I'm not an expert on China, most experts on China that I know believe that with the transition that new leadership will probably be cautious about new policy directions. However in the area of economics, in particular related WTO accession, this has obviously been widely accepted and so now it's a question of the follow-through. And just to take my idea one step further, was why I was trying to understand what is WTO accession mean to the larger reform process in China, what it means in terms of where they are trying to take the Chinese economy, where they are trying to take provinces outside, you know, the coastal area. And I was trying to show that I had some perception in understanding of how this might be important to them and frankly I think it was well received that I was taking the time to go out to Chongqing to show this. And you know, and show that people in CHongqing would see it, the American companies would see it. So I think all these are tying back to Keith's point, to kind of developing relationship both for individuals and for countries.

Q: Strategic common interest and relationship one thing, but FBI hiring Chinese students to sort of see if I can track on leaking of technology into China suggests that there is still strategic component that works against common interest, was that raised at all?

Ambassador Zoellick: The only part that was raised is that the Chinese have been interested in getting high-tech exports, you know, and this is a challenge getting back to the common on the one hand, obviously countries are sensitive about certain high-tech materials related to security

issues. On the other hand, the technology changes pretty quickly, so sometimes you find people blocking exports of computers that, you know, you can so that's another challenge, but no, we didn't discuss that issues. Both countries obviously, you know, have bigger interest in security relations but even there, I mean, it's not my job, but you know, look we've been talking to the Chinese about North Korea and other issues. China is interested in stability in the region, you know, because its focus is domestic growth and I think it also recognizes not only the U.S. market important to it, but you see, I think the United States economy means something else to China.

In that, if you're a Chinese economic leader, you are justifiably proud of what you have accomplished over the 20 years. On the other hand, you know you got some pretty big challenges, you got eight or nine hundred million peasants that are trying to move from farm to city, you got major problems with state enterprises, you have a financial intermediation system that needs to be fixed and that's one reason why you rely on foreign direct investment. So one of the things that I asked, as I said to them -- I may be able to be more help to you if I understand your views on some of these problems. But the other part of this is accomplishment is what's the economy in the world that really ranks. It's the United States, so I mean look, think how the world has changed, if you going to look at the world the economy these days, would you look at France as a model, would you look at Germany as a model, would you look at Japan as a model. I don't mean to put down - I mean when I was in Japan, I met with a number of multi-national business leaders there, trying to urge them to take on the rice market. These are very impressive leaders and impressive companies, but you know, the United States remains 25 to 30 percent of the world economy and the source of high technology, venture capital development and so the Chinese are hardened and realistic people, the U.S. economy is where it's at, I mean in terms of the development as well as capital as well as markets and so if that's the bigger picture.

Q: - deeper strategic relationship, where else that you leave -

Ambassador Zoellick: deeper seeds of economic relationship, he used strategic.

Q: But I guess when you said you want to leave to, say for example, State Department people questions of security, were you discussing the security issues and you are declining to comment, or did you did not discuss them?

Ambassador Zoellick: I did not.

Q: You did not, okay.

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